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INFO RUEHXX/ARAB ISRAELI COLLECTIVE PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUEHBS/USEU BRUSSELS PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 002018

SIPDIS

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NEA FOR FRONT OFFICE; NEA/IPA FOR  
GOLDBERGER/SHAMPAINE/BELGRADE; NSC FOR ABRAMS/WATERS;  
TREASURY FOR SZUBIN/GRANT/HARRIS/NUGENT/HIRSON

E.O. 12958: DECL: 07/17/17  
TAGS: [ECON](#) [EFIN](#) [KFTN](#) [KWBG](#) [IS](#)  
SUBJECT: ISRAELI BANK CUTOFF PORTENDS GAZA BANK CLOSURES  
AND MORE PRIVATE SECTOR DIFFICULTIES

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

11. (SBU) Summary. Bank Hapoalim's decision to sever ties with banks in Gaza, and an expected move by Israel Discount Bank to do the same, could result in cash shortages, bank closures, and a suspension of commercial imports into Gaza, most of which are food, according to Palestinian banking sector representatives. Palestine Monetary Authority (PMA) Governor George Abed is discussing possible solutions with his Israeli counterpart and other Israeli officials. Banks operating in the West Bank are attempting to ascertain the impact on their activities. End summary.

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Threat Made Real  
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12. (SBU) Bank Hapoalim announced September 25 that it is severing its ties with banks operating in the Gaza Strip, according to local press reports. The bank reportedly decided to take this action after the GOI designated Gaza a "hostile entity." Since the formation of the Hamas-led government in March 2006, Bank Hapoalim and the Israel Discount Bank (IDB) have warned that they intended to terminate their correspondent bank relationship with banks operating in the West Bank and Gaza. Both banks provide check clearing services and coordinate cash transfers, operations considered vital to the Palestinian banking sector.

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Damage Control  
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13. (C) PMA Governor Abed told Econoff September 26 that Bank Hapoalim's decision was "not a surprise" and the PMA "is dealing with it." He explained that he had spoken to Bank of Israel Governor Fischer September 25 and is also in contact with GOI Ministry of Finance officials. Abed said that he believes the GOI is seeking to find a solution because it wants to maintain economic and financial relations with Palestinians. If IDB follows Bank Hapoalim's lead, as expected, Abed fears that the banking sector in Gaza could shutdown. Already in steep decline, banking activity there comprises only 18-20 percent of total deposits and about 15 percent of total loan portfolios of banks operating in the West Bank and Gaza, according to Abed.

14. (C) Arab Bank General Manager Mazen Abu Hamdan and Cairo-Amman Bank Regional Manager Joseph Nesnas told Econoff separately September 26 that IDB does much more business with Gaza banks than Bank Hapoalim, so if IDB severs its ties, the

impact will be even more severe. Both said they will close their Gaza branch offices if IDB takes this action. Arab Bank's correspondent account is with the IDB. Both Abu Hamdan and Nesnas said they are uncertain as to exactly how and when Bank Hapoalim will implement its decision, and what the consequences will be for banks in the West Bank. Abu Hamdan suggested that Bank Hapoalim may continue to clear Gaza-origin checks in the short-term with Israeli beneficiaries, but will very soon refuse to accept any checks drawn from Gaza branches.

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Cash Shortage to Further Restrict Trade  
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15. (C) Abed noted that Gaza merchants frequently pay cash for imports, often upon receipt of the goods at the designated crossing. If banks close, Abed continued, cash payments will be even more common. If cash transfers to Gaza are suspended, however, cash will be hoarded and increasingly unavailable to conduct trade. (Note: According to the UN, 86 percent of commercial imports into Gaza are food.) Abed and Abu Hamdan noted separately that a cash cutoff will also adversely affect the payment of PA salary payments to Gaza-based employees. Banks in Gaza need about NIS 150 million each month to make PA salary payments.

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 Hamas Not Guarding Cash Transfers  
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16. Abed refuted a press report alleging that Hamas is now guarding cash shipments once they enter Gaza. He said he is aware that of one instance when a bank notified Hamas of a

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shipment, and Hamas Executive Forces may have shadowed the cash movement in reply, but in all other cases the banks handle their own security arrangements and do not communicate with Hamas.  
WALLES